

Message Text

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SUBJECT: INTERNATIONAL WHEAT COUNCIL DRAFTING GROUP -
DECEMBER 5-9

1. FOLLOWINGS ARE INSTRUCTIONS AND GUIDANCE ON IWC
SECRETARIAT'S SECOND DRAFT OF NEGOTIATING TEXT, PREP (77)
DG 2. WORK OF DRAFTING GROUP (DG) SHOULD CONCENTRATE ON
PREPARATION OF A MANAGEABLE DOCUMENT TO FACILITATE DECISION-
MAKING AT JANUARY SPECIAL COUNCIL SESSION. GROUP SHOULD
ATTEMPT TO DETERMINE AND INDICATE AREAS OF AGREEMENT IN
PROPOSED TEXT AND CLARIFY ELEMENTS OF DISAGREEMENT. IT
SHOULD BE POSSIBLE AND WOULD BE DESIRABLE FOR DG, AT THE
LEAST, TO REACH A CONSENSUS STATEMENT OF OBJECTIVES FOR NEW
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IWA AND A GENERALLY ACCEPTABLE MECHANISM FOR STOCKING
PROVISIONS.

2. DRAFTING GROUP COULD ACHIEVE THIS BY ORGANIZING ITS WORK
BY TAKING UP LESS CONTROVERSIAL PROVISIONS FIRST, IN THE
FOLLOWING MANNER: (1) OBJECTIVES; (2) BASIC RESERVE-STOCK
MECHANISM (SIMILARITY OF RESERVE STOCK PROVISIONS UNDER
ALTERNATIVE 1 AND 2 SUPPORTS ARGUMENT THAT THERE IS GENERAL
AGREEMENT ON STOCKING FRAMEWORK); (3) MISCELLANEOUS PROVISIONS
SUCH AS PRICE INDICATOR, REPORTING, WHEAT FLOUR, AND

ADMINISTRATIVE; (4) THE MORE CONTROVERSIAL ECONOMIC PROVISIONS/RIGHTS AND OBLIGATIONS, SAFEGUARDS, AND ADDITIONAL MEASURES; AND (5) FOOD AID CONVENTION. DEL SHOULD SEEK TO END DG SESSION WITH A SINGLE DOCUMENT WITH MINIMUM BRACKETS ON OBJECTIVES, RESERVE MECHANISM, OTHER GENERALLY APPLICABLE PROVISIONS, AND FOOD AID CONVENTION. WE ARE NOT TRYING AT THIS STAGE TO SEEK COMPROMISE ON ADJUSTMENT MEASURES, MAX/MIN PRICES OR PREFERENTIAL TREATMENT FOR LDC'S, AND US POSITIONS ON THESE SUBJECTS SHOULD BE REFLECTED IN RESULT OF DG SESSION.

3. OBJECTIVES

DRAFT DOES NOT ADEQUATELY REFLECT VIEWS EXPRESSED AT LAST PREP GROUP MEETING FOR STRONG EMPHASIS ON FOOD SECURITY OBJECTIVE, PARTICULARLY ASSURANCE OF ADEQUATE AVAILABILITY OF SUPPLY TO ALL NATIONS DURING PERIODS OF SHORTFALL IN GLOBAL PRODUCTION. U.S. FAVORS AGREEMENT COVERING WHEAT ONLY.

4. MAXIMUM/MINIMUM PRICES - PART II ALTERNATIVE 1

US REMAINS OPPOSED ON POLICY AND TECHNICAL GROUNDS TO LIMITED OFFICIAL USE
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INCLUSION OF RIGID MAXIMUM/MINIMUM PRICE RULES IN NEW WHEAT AGREEMENT AND DEL SHOULD INSIST THAT ALL REFERENCES TO THESE BE BRACKETED. IF GROUP ENGAGES IN DISCUSSION OF DETAILS ON MAXIMUM/MINIMUM PRICES, USDEL SHOULD DRAW FROM FOLLOWING COMMENTS AND RELEVANT PAPERS PREPARED FOR LAST PREP GROUP MEETING.

ARTICLE 3

TEXT SUGGESTS NEW FORMULATION BASED ON SEPARATE MAXIMUM/MINIMUM PRICES FOR FOUR GROUPS OF WHEAT. PRESUMABLY, ALTERNATIVES IN EARLIER DRAFT WERE UNWORKABLE. HOW WOULD THESE NEW PRICES BE ESTABLISHED INITIALLY AND HOW WOULD RELATIONSHIP AMONG THESE FOUR SETS OF PRICES BE MAINTAINED DURING LIFE OF AGREEMENT? HOW WOULD FIXED TRADING PRICES EXPRESSED ON F.O.B. BASIS COPE WITH COMPETITION BASED ON TRANSPORT FACTOR?

ARTICLE 4

IMPROVED ASSURANCES ON SUPPLY AND PURCHASES ARE VALID CONCERNS OF MANY WHEAT TRADING COUNTRIES AND SHOULD BE EXAMINED ON OWN MERITS WITHOUT BEING TIED TO MAXIMUM/MINIMUM PRICE ISSUES.

ARTICLE 5

INEVITABLE LIST OF EXCEPTIONS FROM MAXIMUM/MINIMUM PRICE
PROVISIONS UNDERSCORES IMPOSSIBILITY OF ABSOLUTE PRICE
GUARANTEE AND RECALLS EXPERIENCES OF PAST IWA'S WHERE
NUMBER OF TRANSACTIONS SUBJECT TO PROVISIONS OF AGREEMENT
STEADILY DECLINED DURING LIFE OF AGREEMENT.

ARTICLE 6

AT MAXIMUM PRICE WOULD IMPORTERS HAVE TO EXERCISE PURCHASE
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RIGHTS IMMEDIATELY OR COULD THEY DELAY PENDING MARKET
DEVELOPMENTS? HOW COULD AGREEMENT PROTECT AGAINST RESALE
OF IMPORTS OR SUBSTITUTION OF IMPORTS FOR EXPORTS OF
DOMESTIC WHEAT AT PRICES ABOVE MAXIMUM?

ARTICLE 7

WOULD PRICE INDICATORS TRIGGER MAXIMUM PRICE DECLARATION
FOR INDIVIDUAL CATEGORY OF WHEAT OR FOR ALL FOUR
CATEGORIES AT THE SAME TIME? HOW WOULD AGREEMENT RESPOND
TO SHIFTING OF GRADE AND QUALITY AMONG DIFFERENT
CATEGORIES?

ARTICLE 8

POSSIBILITY THAT SOME COMMERCIAL CONTRACTS COULD BE
EXEMPTED FROM PRICE COMMITMENTS WOULD ENCOURAGE INCREASE
IN LONG-TERM BILATERAL DEALS OUTSIDE AGREEMENT.

ARTICLE 9

DRAFT PRICE PROVISIONS STILL DO NOT ANSWER QUESTION OF HOW
EQUIVALENCE WOULD BE ESTABLISHED BETWEEN DIFFERENT COUNTRIES
AND DIFFERENT GRADES.

5. RESERVE STOCK PROVISIONS

DRAFTING GROUP SHOULD COMBINE DISCUSSION OF DRAFT PROVISIONS
ON RESERVES (ARTICLES 18-26 UNDER ALTERNATIVE 1 AND ARTICLES
3-14 UNDER ALTERNATIVE 2) IN ORDER TO ARRIVE AT ONE SET OF
GENERALLY AGREED PROVISIONS ON RESERVE MECHANISM. DEL
SHOULD ATTEMPT TO REMOVE BRACKETS TO EXTENT POSSIBLE ON
DRAFT PROVISION ON RESERVE STOCK OBLIGATION. ON PARA (4),
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PAGES 21 AND 38, BRACKETED LANGUAGE ON PROVIDING COUNCIL

WITH DETAILS OF LEGISLATION SHOULD BE DROPPED SINCE ALL COUNTRIES MAY NOT REQUIRE LEGISLATION TO FILL THEIR RESERVE OBLIGATIONS. PARA (2) OF PROVISIONS ON CONSULTATIONS SHOULD BE CHANGED TO RESTORE EARLIER LANGUAGE ON

ASSESSING IMPACT OF NON-MEMBERS. THIS IS IMPORTANT IN ORDER TO ASSURE THAT NON-MEMBERS WILL NOT BE ABLE TO OBTAIN WINDFALL BENEFITS FROM OPERATION OF AGREEMENT AND UNDERMINE COOPERATION AMONG MEMBERS. BRACKETED SENTENCE ON SPECIAL FACTORS TO JUSTIFY CANCELLATION OR POSTPONEMENT OF SUBSEQUENT RESERVE ACTION SHOULD BE DROPPED, SINCE THIS COULD LEAD TO PREJUDGMENT OF SITUATION AND DEFEAT PURPOSE OF RESERVE MECHANISM. AN DECISION TO CHANGE PRESCRIBED ACTION SHOULD BE TAKEN BY MEMBERSHIP AT SECOND STAGE TRIGGER.

AUTOMATICITY

USDEL SHOULD SEEK GENERAL ACCEPTANCE OF ALTERNATIVE 1, AUTOMATIC APPROACH TOWARD RESERVE ACTION, AT BOTH HIGH AND LOW PRICE SITUATIONS AND SHOULD SEEK DELETION OF ALTERNATIVE 2, AD HOC APPROACH. WE CAN AGREE TO ADDITIONAL LANGUAGE TO AUTOMATIC APPROACH PROVIDING FOR CONSULTATIONS TO MONITOR AND REVIEW RESERVE ACTIVITIES DURING LOW OR HIGH PRICE SITUATIONS. THIS MODIFICATION CAN BE PATTERNED ON PARAS. 2(B) AND 2(C) PAGES 48-49, THOUGH SPECIFYING THAT MARKET REVIEW COMMITTEE MAY (RATHER THAN SHALL) DECIDE ON ALTERNATIVE MEASURES.

ADJUSTMENT MEASURES

DELEGATION SHOULD SEEK TO ELIMINATE OUTSIDE BRACKETS PARA. (3) PAGE 45 AND PARA (4) PAGE 50, USING ARGUMENT THAT MOST MEMBERS RECOGNIZE UTILITY OF ADJUSTMENT AT APPROPRIATE OCCASIONS AND CONSISTENT WITH NATIONAL SYSTEMS BUT THAT LIMITED OFFICIAL USE
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DISAGREEMENT EXISTS WHETHER SUCH MEASURES SHOULD BE MANDATORY OR VOLUNTARY.

PRIORITY TO MEMBERS, PARA (3) PAGE 50

USDEL SHOULD SEEK RETENTION OF FIRST SENTENCE AS DRAFTED. IF HELPFUL IN RESPONDING TO IMPORTERS CONCERN, YOU MAY INDICATE THAT QUESTION OF SUPPLY ASSURANCES CAN BE TAKEN-UP IN NEGOTIATION OF THIS PROVISION. ON PRIORITY OF RESERVES RELEASE TO LDC'S YOU SHOULD RESERVE POSITION SINCE IT IS UNCERTAIN WHETHER OR NOT SPECIAL PRIORITY SHOULD BE ATTEMPTED UNDER WHEAT TRADE CONVENTION IN ADDITION TO FOOD AID CONVENTION.

6. MEASURES BEYOND RESERVE ACTIONS

IN PARA (2) PAGE 46 PERIOD OF TIME THAT OTHER STOCKS ARE TEMPORARILY WITHHELD FROM MARKET WOULD DEPEND ON DECISIONS TAKEN BY MEMBER COUNTRIES, THEREFORE, BRACKETED LANGUAGE ON HIGH PRICE DECLARATION SEEMS UNNECESSARY. DEL SHOULD SEEK TO REMOVE BRACKETS FROM PARA (3) PAGE 52.

7. PRICE INDICATOR

US CAN AGREE TO TENTATIVE PRICE INDICATOR BASKET BASED ON 6 TYPES OF WHEAT SUGGESTED IN DRAFT, THOUGH THESE SHOULD REMAIN IN BRACKETS. REFERENCES TO MAXIMUM/MINIMUM PRICE DECLARATIONS WITH RESPECT TO GRADUATED ACTION POINTS SHOULD BE DROPPED OR BRACKETED.

8. WHEAT FLOUR

PROVISION TO ASSURE CONSISTENCY BETWEEN PRICES FOR WHEAT LIMITED OFFICIAL USE
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AND WHEAT FLOUR ARE TIED TO MAXIMUM/MINIMUM PRICE PROVISIONS AND SHOULD BE BRACKETED. ALTERNATIVES WOULD BE TO REDRAFT SOLELY AS A REPORTING REQUIREMENT UNDER MISCELLANEOUS PROVISIONS OF WHEAT TRADE CONVENTION.

9. NON-COMMERCIAL TRANSACTIONS

GUIDELINES RELATING TO NON-COMMERCIAL TRANSACTIONS ARE ASPECT OF MAX/MIN PRICE PROVISIONS AND SHOULD BE BRACKETED. AS ABOVE, ALTERNATIVE WOULD BE TO REDRAFT FOR SOLE PURPOSE OF REPORTING REQUIREMENT. IN EITHER CASE, US DEL CAN SUGGEST THAT DEFINITION OF NON-COMMERCIAL TRANSACTIONS SHOULD INCLUDE WHEAT SALES AT SUBSIDY OR DISCOUNT PRICES, INCLUDING MIXED COMMERCIAL/CONCESSIONAL SALES.

10. ASSISTANCE TO LDCS

CONCLUSION OF AN AGREEMENT THAT OFFERS REALISTIC POSSIBILITY OF OBTAINING OBJECTIVES ON FOOD SECURITY AND PRICE STABILIZATION AND THAT INCLUDES A STRONG FOOD AID CONVENTION WOULD CONVEY MAJOR BENEFITS TO LDCS THAT HAVE NOT EXISTED IN PAST. FURTHER ATTEMPTS TO OBTAIN SPECIAL TREATMENT WITHIN THE FRAMEWORK OF A WHEAT AGREEMENT WOULD PRESENT SERIOUS RISK OF UNDERMINING NEGOTIATION OF A MEANINGFUL AGREEMENT AND COULD COMPROMISE EFFECTIVE OPERATION IN FUTURE.

THE US DOES NOT SUPPORT ANY OF THE MEASURES FOR PREFERENTIAL TREATMENT WITH RESPECT TO PRICES, PAGE 14, SINCE THESE DEPEND ON INCLUSION OF PROVISIONS ON MAXIMUM/MINIMUM

PRICES. WE WOULD SERIOUSLY DOUBT, IN ANY CASE, THAT THERE ARE ANY ADEQUATE SAFEGUARDS REGARDING RE-EXPORTS OR MARKET IMPACT ON LDC EXPORTERS, NOT ONLY OF WHEAT BUT COARSE GRAINS AND RICE AS WELL. IN SHORTAGE SITUATIONS PREFERENTIAL PRICES WOULD BE MEANINGLESS IF SUPPLY WAS NOT AVAILABLE. IN LOW PRICE SITUATIONS PREFERENTIAL TREATMENT LIMITED OFFICIAL USE
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WOULD PROVIDE LOOPHOLES TO SELL BELOW MINIMUM AND THEREBY UNDERMINE AGREEMENT.

ON ASSISTANCE FOR RESERVE STOCKS, US HAS PREVIOUSLY STATED IN IWC THAT WE FAVOR PROVISION IN NEW IWA ENCOURAGING AID AGENCIES TO ASSIST LDC'S IN ESTABLISHING STORAGE AND HANDLING FACILITIES TO HELP THEIR PARTICIPATION IN RESERVE SYSTEM, ALTHOUGH DRAFT LANGUAGE SUGGESTING THAT IWC WILL INSTRUCT OR WORK OUT PROGRAMS FOR OTHER AGENCIES IS INAPPROPRIATE. NOT ALL LDC'S WILL REQUIRE IMPORTS TO CONSTITUTE RESERVES BUT, FOR COUNTRIES THAT WILL IMPORT TO BUILD RESERVES AND THAT REQUIRE FINANCIAL ASSISTANCE, SUCH ASSISTANCE SHOULD BE WORKED OUT ON CASE-BY-CASE BASIS BETWEEN COUNTRY CONCERNED AND INTERNATIONAL AGENCIES OR DONOR COUNTRIES. US DOES NOT FAVOR IWC BECOMING A FINANCIAL INSTITUTION AND SUGGESTED STOCKS FINANCING SCHEME ALONG LINES OF SUGAR AGREEMENT IS 'OT APPROPRIATE FOR WHEAT RESERVE. US WOULD NOT OBJECT TO PROVISION SPECIFYING THAT FOOD AID PROGRAMS WOULD BE AVAILABLE TO HELP NEEDY COUNTRIES ESTABLISH RESERVE. US WOULD ALSO SUPPORT DE MINIMUS RULE PROVIDING THAT RESERVE SHARE OF SMALL LDC'S BE ABSORBED BY DEVELOPED COUNTRIES.

11. FOOD AID CONVENTION

US DEL SHOULD COMMENT THAT USG IS CURRENTLY REVIEWING A NUMBER OF SPECIFIC PROVISIONS FOR IMPROVEMENT OF FAC, SOME OF WHICH, SUCH AS 10 MILLION TONS OBJECTIVE AND EXPANDED MEMBERSHIP, WE HAVE ALREADY ANNOUNCED. US PROPOSALS, AS THOSE FROM OTHER COUNTRIES, WILL BE SUBJECT OF EXAMINATION DURING FAC NEGOTIATION. AT THIS STAGE DRAFT CONVENTION PREPARED BY SECRETARIAT, WITH SPECIFICATION OF 10 MILLION TONS OBJECTIVE, CONSTITUTES A SATISFACTORY BASIS TO LIMITED OFFICIAL USE
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CONVENE NEGOTIATIONS. VANCE

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Message Attributes

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